



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: July 3, 2002 REPORT NO. 02-152

ATTENTION: Honorable Mayor and City Council
Docket of July 8, 2002

SUBJECT: SAN DIEGO REGIONAL REVOLVING LOAN FUND

SUMMARY

Issues – Should the City Council:

Authorize the City Manager to: a) Apply for, and accept funds up to \$1.2 million from the Economic Development Administration to establish the San Diego Regional Revolving Loan Fund; b) Accept the loan repayments from the Redevelopment Agency; c) Authorize the appropriation and expenditure of up to \$2.4 million in combined City matching funds and EDA grant funds, as needed, for the San Diego Regional Revolving Loan Fund, provided that the Auditor first furnishes a certificate that funds are, or will be, on deposit in the City Treasury; d) Negotiate and execute agreements with the cities of Chula Vista, Imperial Beach and National City to participate in the grant application and resulting revolving loan fund; e) Establish and administer a San Diego Regional Revolving Loan Fund Program, appoint a Loan Committee to accomplish the goals as set forth in the report, and engage in revenue-generating investment and lending activities?

Manager's Recommendations -

Authorize the City Manager to: a) Apply for, and accept funds up to \$1.2 million from the Economic Development Administration to establish the San Diego Regional Revolving Loan Fund; b) Accept the loan repayments from the Redevelopment Agency; c) Authorize the appropriation and expenditure of up to \$2.4 million in combined City matching funds and EDA grant funds, as needed, for the San Diego Regional Revolving Loan Fund, provided that the Auditor first furnishes a certificate that funds are, or will be, on deposit in the City Treasury; d) Negotiate and execute agreements with the cities of

Chula Vista, Imperial Beach and National City to participate in the grant application and resulting revolving loan fund; e) Establish and administer a San Diego Regional Revolving Loan Fund Program, appoint a Loan Committee to accomplish the goals as set forth in the report, and engage in revenue-generating investment and lending activities.

Fiscal Impact - Funds in the amount of \$1.2 million are being requested from the Economic Development Administration. Matching funds are proposed to come from 1) budgeted and optional Redevelopment Agency loan repayments; and 2) a prorata match from the partner cities of Chula Vista, Imperial Beach, or National City depending on the project location. Local match is required at the time loan applications for the RLF are received and funded.

BACKGROUND

A revolving loan fund (RLF) is a source of financing from which loans are made for small business or development projects. As funded loans are repaid, funds become available for new loans to other businesses, thus creating a revolving fund.

RLF's are established to provide a source of financing, which may not otherwise be available within the community, for local, expanding, or start-up businesses. They are used to fill a "financing gap." A gap occurs when a project lacks sufficient funding to meet equity and other requirements of bank financing or requires a lower interest rate for the project to be financially feasible. An RLF within a community enhances the local economic development "tool chest". Incentives such as fixed rate, low interest, and/or long-term financing are important to businesses desiring to locate or expand within an area. Although the RLF is not the primary source of financing for a project, the combination of public and private financing lessens the risk for the primary lender (by decreasing its exposure) and yields an overall lower cost of funds for the borrower.

Business owners are encouraged by programs that support retention and expansion, utilizing flexible, locally controlled funds. These programs demonstrate a pro-business attitude, which is critical when developing partnerships between the public and private sectors.

Since 1994, the City of San Diego has effectively run the \$2.5 million Emerging Technology (EmTek) Fund. EmTek targets hi-tech businesses located in low and moderate-income census tracts, as well as women- and minority-owned businesses. EmTek operates two phases, with Phase I capitalized by a \$750,000 EDA grant plus local government matching funds, and Phase II capitalized by local government and a consortium of area banks.

DISCUSSION

The establishment of a revolving loan fund within a community is one of several tools available to encourage small business development. The proposed San Diego Regional Revolving Loan Fund will utilize public funds, and is targeted toward the under-served small business market to provide financing and to leverage private investment in targeted areas of San Diego, Chula Vista, Imperial Beach, and National City. The goal is to participate in projects that create economic growth, lead to permanent jobs, and cultivate development of small business and mixed-use projects through capacity building and private leverage. It is expected that RLF loans will fill a financing gap that otherwise would not be filled by private lenders.

To meet EDA's evaluation criteria for a revolving loan fund, the program plan must be consistent with the Comprehensive Economic Development Strategy (CEDS), demonstrate knowledge of the local market, and address a financing gap of the targeted business segments. The CEDS document is a specific strategy developed according to the federal guidelines from the Economic Development Administration with input from all four cities involved in the proposed RLF. In addition, EDA requires the RLF to adhere to Federal and Local regulations, laws and statutes, and identify the targeted market via use of qualifying per capita income statistics and/or unemployment rates. Proposed for qualification within the RLF lending area are 110 census tracts located in the City of San Diego; 12 census tracts in Chula Vista; 6 in Imperial Beach; and 13 in National City.

The City of San Diego is the lead agency in the proposed RLF. The Economic Development Administration (EDA) looks to San Diego as the largest City in the County, and as the leader in regionalism through partnerships based on San Diego's staff and past grant experience. Without the City's willingness to act as lead in the new RLF, the identified small businesses and redevelopment projects will lack a financing tool that might otherwise make their projects financially feasible.

Proposed Loan Program

The request to EDA is for \$1.2 million, which combined with the City of San Diego's \$1.2 million match, will create and capitalize a \$2.4 million revolving loan fund. These funds will provide gap financing for job-creating businesses that require new or rehabilitation construction for mixed use projects, infill projects, reuse projects, and tenant improvements. The proposed partner cities of Chula Vista, Imperial Beach, and National City will contribute matching funds to correspond to the loan applications from their areas. The potential exists for them to participate at the \$100,000 each, for a total of \$300,000. However, in order to ensure that the City of San Diego is not precluded from fully leveraging available federal funds, the contemplated \$1.2 million match has been budgeted as optional Redevelopment Agency loan repayments. Agreements between the partner cities will be negotiated to address participation issues, and administrative costs related to the RLF, with administrative costs proposed to be shared in proportion to each city's level of participation.

The RLF is proposed to provide from 1/3 to 1/2 of an eligible project, with loans ranging from \$150,000 to \$500,000. RLF loans will be leveraged by private equity/funding. Given the diversity of small business lending tools in the San Diego Region, there remains a gap in funding for mixed-use projects, and for unsophisticated borrowers. With the upward spiral of costs in all aspects of the real estate market, the new RLF will leverage private and non-government sources for uses already outlined, as well as to guarantee long-term leases and working capital. While there are many programs and efforts to help small businesses, the targeted census tracts often have a less competitive infrastructure, serve a market population with less buying power, and often carry a higher cost of conducting business. For these reasons, the deal structure will remain flexible to respond to the needs of each project, neighborhood, and borrower.

All RLF loans are proposed to have job-creation as the public benefit component, and will leverage loan proceeds against private investment. The RLF will prioritize projects that minimize the ratio of RLF loan funds to private equity, create the most livable (family-wage) jobs, or that create jobs in clusters that create opportunity for growth of knowledge and capacity for advancement.

Loan applications will be reviewed by a loan committee, to be comprised of business owners, local lenders, and City staff, to be appointed by the City Manager. Member city partners will also provide input. Recommendations of the loan committee will be brought to the City Manager for execution.

The focus of the RLF will include real estate acquisition, leasehold expansion, and working capital, all three of which create direct benefits to the economy, and which positively impact the local economic tax base through redevelopment of older buildings, by improved/increased capacity in mixed-use areas, and by enabling businesses to grow through injections of permanent working capital.

Draw Down of Matching Funds

Local matching funds will be drawn down on an as-needed basis as loans are approved.

CONCLUSION

The grant application and subsequent acceptance of \$1.2 million grant to create the new revolving loan fund will enhance the region's economy through job creation, economic expansion, and business enhancement, and will further promote the goals of regionalism, equality and community development.

ALTERNATIVES

Do not approve the Manager's recommendations.

Respectfully submitted,

Hank Cunningham
Director
Community and Economic Development

Approved: Bruce Herring
Deputy City Manager

Note: The attachment is not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachments:

1. U.S. Department of Commerce May 6, 2002 letter / formal invitation to apply for \$1.2 million Revolving Loan Fund capitalization grant

CUNNINGHAM/JK